



September 8, 2016

Crossroads Systems Reports Fiscal Third Quarter 2016 Financial Results

AUSTIN, Texas, Sept. 8, 2016 /PRNewswire/ -- Crossroads Systems, Inc. (NASDAQ: CRDS), an intellectual property licensing company, reported financial results for its fiscal third quarter ended July 31, 2016. On March 22, 2016, Crossroads sold its product business to Canadian-based StrongBox Data Solutions, Inc. The presentation of the company's quarterly financial results excludes product revenues and expenses, which are now reflected as discontinued operations.



Intellectual property license revenue for the fiscal third quarter was \$57,000, compared to \$445,000 in the same quarter a year ago. Gross profit was \$34,000, or 60 percent of total revenue, compared to \$257,000 or 58 percent of total revenue in the same quarter a year ago.

Operating expenses for the third quarter decreased to \$1.2 million, compared to \$2.8 million in the same period a year ago. This decrease is primarily due to lower headcount and lower intellectual property litigation expenses.

Net loss available to common stockholders was \$(481,000) or \$(0.39) loss per share, compared to a net loss available to common stockholders of \$(3.3) million or \$(3.40) loss per share in the same quarter a year ago.

At July 31, 2016, cash, cash equivalents, and restricted cash totaled \$4.9 million compared to \$6.1 million in the previous quarter.

Management Commentary

Richard K. Coleman, Jr., President and CEO at Crossroads Systems, said, "We are near the end of the scheduled bidding process for the non-972 portfolio. Although we cannot guarantee the results or timing of a sale, we hope to consummate a transaction in 2016. Also in the third quarter, we continued our appeals related to the '972 patent portfolio before the US Court of Appeals for the Federal Circuit. We remain confident that Crossroads has compelling arguments and look forward to the hearing in January."

Conference Call Information

Crossroads will hold a conference call on Thursday, September 8, 2016 at 4:30 p.m. Eastern Time (3:30 p.m. Central Time) to discuss the financial results. Richard K. Coleman, Jr., President and CEO, and CFO Jennifer Crane will host the presentation followed by a question and answer period.

Date: Thursday, September 8, 2016

Time: 4:30 p.m. Eastern Time (3:30 p.m. Central Time)

Dial-In Number: (888) 727-7725

International: (913) 312-1520

Conference ID: 5920769

To access the live or recorded webcast, visit:

<http://edge.media-server.com/m/p/dg9tm8gp>

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. For those unable to listen to the live call, a webcast replay of the call will be available the day after the call in the Investor Relations Events & Presentations section of the Crossroads website.

About Crossroads Systems

Crossroads Systems, Inc. (NASDAQ: CRDS) is an intellectual property licensing company headquartered in Austin, Texas. Founded in 1996 as a product solutions company, Crossroads created some of the storage industry's most fundamental patents and has licensed patents to more than 50 companies since 2000. Visit www.crossroads.com.

Important Cautions Regarding Forward-Looking Statements

This press release includes forward-looking statements that relate to the business and expected future events or future performance of Crossroads Systems, Inc. and involve known and unknown risks, uncertainties and other factors that may cause its actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, "believe," "expect," "anticipate," "estimate," "intend," "plan," "targets," "likely," "will," "would," "could," and similar expressions or phrases identify forward-looking statements. Forward-looking statements include, but are not limited to, statements about Crossroads Systems' ability to implement its business strategy, changes in the fair value of its derivative instruments and its ability to achieve or maintain profitability. The future performance of Crossroads Systems may be adversely affected by the following risks and uncertainties: variations in quarterly results, the ability to obtain, maintain or protect patent and other proprietary intellectual property rights, developments in litigation to which we may be a party, technological change in the industry, future capital requirements, regulatory actions or delays and other factors that may cause actual results to be materially different from those described or anticipated by these forward-looking statements. For a more detailed discussion of these factors and risks, investors should review Crossroads Systems' reports on Form 10-K, Form 10-Q, Form 8-K and other reports filed with the Securities and Exchange Commission, which can be accessed through the SEC's website or by clicking "SEC Filings" on the Company's Investor Relations website at <http://investors.crossroads.com>. Forward-looking statements in this press release are based on management's beliefs and opinions at the time the statements are made. All forward-looking statements are qualified in their entirety by this cautionary statement, and Crossroads Systems undertakes no duty to update this information to reflect future events, information or circumstances.

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CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

ASSETS	July 31, 2016	October 31, 2015
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 2,718	\$ 5,314
Restricted cash	2,192	6,478
Total cash, cash equivalents and restricted cash	4,910	11,792
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$5, respectively	1,049	656
Current assets of discontinued operations	-	1,544
Prepaid expenses and other current assets	172	218
Total current assets	6,131	14,210
Non-current assets of discontinued operations	-	562
Other assets	186	141
Total assets	<u>\$ 6,317</u>	<u>\$ 14,913</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 409	\$ 1,823
Accrued expenses	508	1,727
Deferred revenue, current portion	2,280	6,343
Current liabilities of discontinued operations	-	1,359
Total current liabilities	<u>3,197</u>	<u>11,252</u>
Non-current liabilities of discontinued operations	-	597
Commitments and contingencies (See Note 4)	<u>-</u>	<u>-</u>
Total liabilities	3,197	11,849
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value, 25,000,000 shares authorized, 2,591,257 and 2,791,257 shares issued and outstanding, respectively	3	3
Common stock, \$0.001 par value, 75,000,000 shares authorized, 1,225,472 and 1,209,126 shares issued and outstanding, respectively	1	1
Additional paid-in capital	239,708	238,905
Accumulated other comprehensive loss	-	(90)
Accumulated deficit	<u>(236,592)</u>	<u>(235,755)</u>
Total stockholders' equity	<u>3,120</u>	<u>3,064</u>
Total liabilities and stockholders' equity	<u>\$ 6,317</u>	<u>\$ 14,913</u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In Thousands, Except Share and Per Share Data)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
Revenue:				
IP license, royalty and other revenue	\$ 57	\$ 445	\$ 477	\$ 838
Cost of revenue:				
IP license, royalty and other cost of revenue	23	188	122	242
Gross profit	34	257	355	596
Operating expenses:				
General and administrative	1,186	2,809	4,891	6,876
Total operating expenses	1,186	2,809	4,891	6,876
Loss from operations	(1,152)	(2,552)	(4,536)	(6,280)
Other expense:				
Interest expense	-	(79)	-	(306)
Amortization of debt discount and issuance costs	-	(122)	-	(522)
Other income	713	(1)	4,012	18
Loss from continuing operations	(439)	(2,754)	(524)	(7,090)
Discontinued operations:				
Loss on discontinued operations	-	(503)	(1,812)	(1,989)
Gain on disposal of discontinued operations	-	-	1,771	-
Gain (loss) from discontinued operations	-	(503)	(41)	(1,989)

Net income (loss)	<u>\$ (439)</u>	<u>\$ (3,257)</u>	<u>\$ (565)</u>	<u>\$ (9,079)</u>
Dividends attributable to preferred stock	<u>\$ (42)</u>	<u>\$ (43)</u>	<u>\$ (171)</u>	<u>\$ (228)</u>
Net loss available to common stockholders, basic and diluted	<u>\$ (481)</u>	<u>\$ (3,300)</u>	<u>\$ (736)</u>	<u>\$ (9,307)</u>
Earnings (loss) per share, basic and diluted:				
Discontinued operations	<u>\$ -</u>	<u>\$ (0.52)</u>	<u>\$ (0.03)</u>	<u>\$ (2.19)</u>
Continuing operations	<u>\$ (0.36)</u>	<u>\$ (2.84)</u>	<u>\$ (0.43)</u>	<u>\$ (7.79)</u>
Available to common stockholder	<u>\$ (0.39)</u>	<u>\$ (3.40)</u>	<u>\$ (0.60)</u>	<u>\$ (10.22)</u>
Weighted average number of common shares				
outstanding, basic and diluted	<u>1,225,472</u>	<u>971,403</u>	<u>1,224,801</u>	<u>910,300</u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended	
	July 31,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net loss	\$ (565)	\$ (9,079)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation from discontinued operations	69	300
Gain on sale of discontinued operations	(919)	-
Amortization of debt discount	-	512
Stock-based compensation	557	743
Provision for doubtful accounts receivable	(4)	61
Changes in assets and liabilities:		
Accounts receivable	641	260
Inventory	54	(123)
Prepaid expenses and other assets	62	209
Accounts payable	(1,310)	1,337
Accrued expenses	(737)	211
Deferred revenue	<u>(5,300)</u>	<u>154</u>
Net cash used in operating activities	<u>(7,452)</u>	<u>(5,415)</u>
Cash flows from investing activities:		
Purchase of property and equipment from discontinued operations	(28)	(180)
Proceeds from sale of discontinued operations	852	-
Maturity of held-to-maturity investments	-	-
Net cash provided by (used in) investing activities	<u>824</u>	<u>(180)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of expenses	-	10,549
Preferred dividends	(133)	-
Repayment of debt	-	(2,534)
Net cash (used in) provided by financing activities	<u>(133)</u>	<u>8,015</u>
Effect of foreign exchange rate on cash and cash equivalents	<u>(121)</u>	<u>(55)</u>
Change in cash and cash equivalents	(6,882)	2,365
Cash, cash equivalents, and restricted cash beginning of period	11,792	4,946
Cash, cash equivalents, and restricted cash end of period	<u>\$ 4,910</u>	<u>\$ 7,311</u>

Supplemental disclosure of cash flow information:

Cash paid for interest	<u>\$ -</u>	<u>\$ 309</u>
Cash paid for income taxes	<u>\$ 2</u>	<u>\$ 1</u>

Supplemental disclosure of non cash financing activities:

Conversion of preferred stock to common stock

\$	302	\$	418
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Common stock dividends issued to preferred shareholders

\$	139	\$	298
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Warrants issued with private placement stock

\$	-	\$	1,893
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Lease incentive received, non-cash addition to fixed assets

\$	-	\$	243
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